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LA, PGOV, PHUM, PREL, SENV, SOCI, TH, UNDP, KFLU, TBIO
SUBJECT: WORLD BANK OFFICIAL EXPRESSES CAUTIOUS OPTIMISM TO
EAP/MLS DIRECTOR

REF: A. VIENTIANE 121

[¶](#)B. VIENTIANE 133
[¶](#)C. VIENTIANE 1155

[¶](#)11. (SBU) Summary: During a March 2 meeting, World Bank country manager Patchamuthu Illangovan told visiting EAP/MLS office director Rapson that he is more optimistic than he used to be about prospects for progress in Laos. The World Bank's major hydropower project, Nam Theun 2, has brought dynamism and good practices, although there are still many "second and third tier companies" that have agreements with the government in the hydropower and mining sectors. Nam Theun 2 is going forward in a satisfactory way, although there have been delays in relocating affected families. The Lao government has made surprisingly good progress in public finance reform, in part due to prodding by the newly vigorous legislature. Corruption appears to be on the rise, and the Lao have asked the World Bank for help in addressing it. End summary.

[¶](#)12. (U) At a March 2 meeting with visiting EAP/MLS Director Robert Rapson, World Bank country manager Patchamuthu Illangovan provided an overview of current World Bank priorities and concerns. The World Bank's Laos office is currently implementing the March 2005 strategy, which emphasizes capacity development of organizations and individuals. The office recently created a senior position dealing exclusively with capacity-building. Investment and trade capacity-building is a priority for the World Bank and other donors. The World Bank is prepared to move quickly to assist the Lao government in addressing avian influenza. (Note: After this meeting, the World Bank reached agreement with the Lao government to fund a major poultry culling operation, currently underway. They continue to review other assistance requests. End note.)

Public Finance and Governance

[¶](#)13. (SBU) Mr. Illangovan said he has observed a lot of dynamism in Laos since the beginning of the Nam Theun 2 hydro-power project. (Note: This is the World Bank's largest project in Laos. It was approved in 2005. End note.) Despite his initial skepticism regarding the Lao government's ability to take on public finance management reform, there has been encouraging progress. Recent amendments to the budget law (Ref A) will improve the fiscal situation by centralizing revenue collection, which previously took place primarily at the provincial level. This effort has been led by very committed officials, including the Vice Minister of Finance. Mr. Illangovan noted that China and Vietnam undertook similar reforms in the mid-1980s and mid-1990s, respectively.

¶4. (SBU) Mr. Illangovan said that there is a sense that corruption is on the rise. The Lao government has asked for assistance in addressing this. Anti-corruption efforts, which heretofore have fallen under the Deputy Prime Minister, will be moved into an independent unit.

¶5. (SBU) Mr. Illangovan noted that the National Assembly is beginning to demand accountability. For example, they pushed back on government revenue targets. When the government said there would be shortfalls, National Assembly Vice President Pany Yathortu retorted that the legislature had passed budget legislation at the government's request and expected the government to uphold its own commitments. (Note: Mme. Pany is a member of the communist party Politburo. End note.)

Trade and Investment Capacity-Building

¶6. (SBU) Mr. Illangovan outlined the goals of the recently completed Diagnostic Trade and Integration Study, which articulates the key policy actions to be taken by the Lao government in order to increase export competitiveness and promote trade and investment. (Note: Details on the program can be found in the World Bank's November 2006 "Lao PDR Economic Monitor," available on the internet. End note.) A multi-donor trust fund has been established to coordinate trade-related assistance, including strengthening customs procedures and developing enterprise regulations. Mr. Illangovan said that the biggest challenge for donors is that the Ministry of Industry and Commerce lacks staff members capable of engaging on these issues.

Hydro-power and Mining

VIENTIANE 00000220 002 OF 002

¶7. (SBU) Mr. Illangovan said that progress on Nam Theun 2 has been satisfactory, despite some setbacks such as delays in relocating villagers. 100 of 600 households have been relocated so far. There are concerns about how people who were previously hunter-gatherers will adjust to being farmers. The project has committed to doubling household incomes for affected families from \$400 a year to \$800. The main income sources will be agriculture, livestock, fisheries, and forestry. The next challenge will be ensuring the integrity of the watershed area. Poaching and logging (particularly of rosewood) are the biggest threats. Downstream risks that have to be addressed include dirty water and rising water levels, which could lead to loss of fisheries in four to five years.

¶8. (SBU) Nam Theun 2, Mr. Illangovan said, provided a model for high-quality investment in the hydro-power sector which the government hoped to replicate for other projects. This has not materialized, however. Senior energy and environment officials in Thailand are aware that they need to pay more attention to the quality of Thai investments in Laos. Mr. Illangovan said that there have been concerns that the Nam Ngum 2 commercial hydropower project was rushed into operation, causing problems which the company is now trying to address by retrofitting. Four or five other projects are scheduled to begin producing energy in the next five to seven years. Chinese, Korean, and Russian companies have signed memoranda of understanding. However, some of these projects "may not see the light of day."

¶9. (SBU) Mr. Illangovan noted that the Lao government is concerned about quality of investments in the mining sector, which was the reason for the recently announced moratorium on approval of new mining investments (Ref B). The government is worried that speculators are buying up concessions and then sitting on them, waiting to sell them to other buyers. However, the government does not want to discourage investors. With regard to investment in general, more competition is needed. Otherwise, Laos will become a

"playground for second and third-tier companies."

Cautious Optimism

¶10. (SBU) Mr. Illangovan said, "A few years ago, I wasn't that optimistic. But I see improvement. Having come this far, I don't think they'll want to move the clock back." He added, however, that getting things done will continue to require patience. The Lao government places a premium on consensus-building; moving quickly is not a priority. Donors are becoming more coordinated, but Laos is not yet where Cambodia and Vietnam are in terms of aid effectiveness. The donor community has not yet developed joint sectoral initiatives. The donor round table (Ref C) is not a businesslike, efficient process.

¶11. (SBU) Comment: Mr. Illangovan noted a number of the same encouraging developments that the embassy has observed, such as a stronger National Assembly. We also share his views on obstacles to progress, foremost among them lack of human capacity. End comment.

MCGEEHAN